2W volume growth likely to drive profit for auto sector in Q1

OEMs may post 9–10% revenue growth for June quarter

TRACKING ESTIMATES Q1FY25E

Figures in ₹crore	Net sales	% Chg Y-o-Y	PAT	% Chg Y-o-Y
Bajaj Auto	11,526	14.6	1,917	16.6
Tata Motors	1,09,528	7.9	5,288	65.1
Mahindra & Mahindra	27,884	15.9	2,683	-3.3
Hero MotoCorp	10,349	18.0	1,154	23.2
Eicher Motors	4,303	10.0	1,011	10.1
Ashok Leyland	8,691	6.6	544	-5.7
TVS Motor Co	8,398	16.4	558	44.8

PAT: Profit after tax; E: Estimates

Source: Bloomberg

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During the first quarter of the financial year (FY25), retail growth lagged wholesales, and analysts see original equipment makers (OEMs) posting 10 per cent volume growth, led mainly by two-wheelers.

Around 9-10 per cent revenue growth is estimated, with 14-17 per cent growth in earnings before interest, taxes, depreciation and amortisation (Ebitda). Profit after tax growth is expected in the range of 18 per cent during Q1.

Motilal Oswal analysts noted that automobile OEMs overall are expected to post a 10 per cent year-on-year (Y-o-Y) volume growth.

Two wheelers are set to grow by 11 per cent, followed by passenger vehicles (PVs) at 6 per cent, with commercial vehicles (CVs) and tractors likely to clock 4 per cent growth.

"We expect a volume compound annual growth rate (CAGR) of 9 per cent for two-wheelers, 6 per cent for PVs, and 5 per cent for tractors over FY24-26. For three-wheelers and commercial vehicles, we anticipate a volume CAGR of 8 per cent and 7 per cent, respectively, over the same period," the analysts added.

Key commodity prices rose in Q1FY25. Analysts expect the impact of rising input costs to be visible from Q2 onwards

Key commodity prices rose in Q1FY25 – aluminium (15 per cent), copper (16 per cent), lead (5 per cent), rubber (5 per cent), and platinum (9 per cent).

Analysts expect the impact of rising input costs to be visible from Q2.

Kotak Institutional Equities said it expects automotive OEMs (except Tata Motors) to post higher revenues by 10 per cent Y-o-Y. This is on around 14 per cent Y-o-Y growth in two-wheeler production volumes, low-single-digit growth in PV production, and mid-single-digit improvement in average selling prices due to price increases and richer product mix.

"We expect Ebitda margin (excluding Tata Motors) to decline by 20 basis points (bps) quarter-on-quarter (Q-o-Q) in Q1 for auto OEMs. It is mainly led by negative operating leverage and raw material headwinds, partly offset by a richer product mix," Kotak analysts noted.

Meanwhile, rupee depreciation versus the pound and euro should aid translation gains at Tata Motors-Jaguar Land Rover, and Samvardhana Motherson International, among others.

Rupee depreciation against the dollar is positive for Bajaj Auto and TVS. Moreover, Yen depreciation versus the rupee is positive for Maruti Suzuki India and Honda Motor Company.

Nuvama analysts said that in their recent meetings with OEMs and ancillaries, they reaffirmed their constructive view on domestic and overseas growth products across two-wheelers, PVs and tractors.

"Our upcycle thesis stays — the past 30-year historical trend indicates that sales peaks across segments could be as much as two–four years away, considering the average trough-to-peak duration. We believe 2W, PV and tractors are well positioned with volumes likely to grow in mid-to-high single-digits over FY24–26 estimated," the Nuvama analysts said. As such domestic two-wheeler volumes surged around 19 per cent Y-o-Y in Q1. The volume performance has been robust due to better urban-rural demand, pickup in economy motorcycles' and better finance availability. Domestic PV industry volumes grew around 3 per cent Y-o-Y. Analysts expect Mahindra and Mahindra (M&M) auto division to register a strong Q1 revenue growth of 18 per cent (total revenue growth of 17 per cent), followed by 6 per cent for Maruti Suzuki and a decline of 4 per cent for Tata Motors' PV division.

Domestic CV industry volumes increase around 4 per cent Y-o-Y.

"We anticipate revenue growth of 7 per cent Y-o-Y for Ashok Leyland and 6 per cent for Tata Motors India CV division. In contrast, Volvo Eicher Commercial Vehicles is likely to see a decline of 4 per cent," Nuvama said.

Domestic tractor sales were flat in the first quarter.

M&M's farm division is expected to post a growth while Escorts is likely to see a 2 per cent revenue decline.

Tata Motors may register a 5 per cent Y-o-Y consolidated revenue uptick, driven by growth in JLR and India CV division.